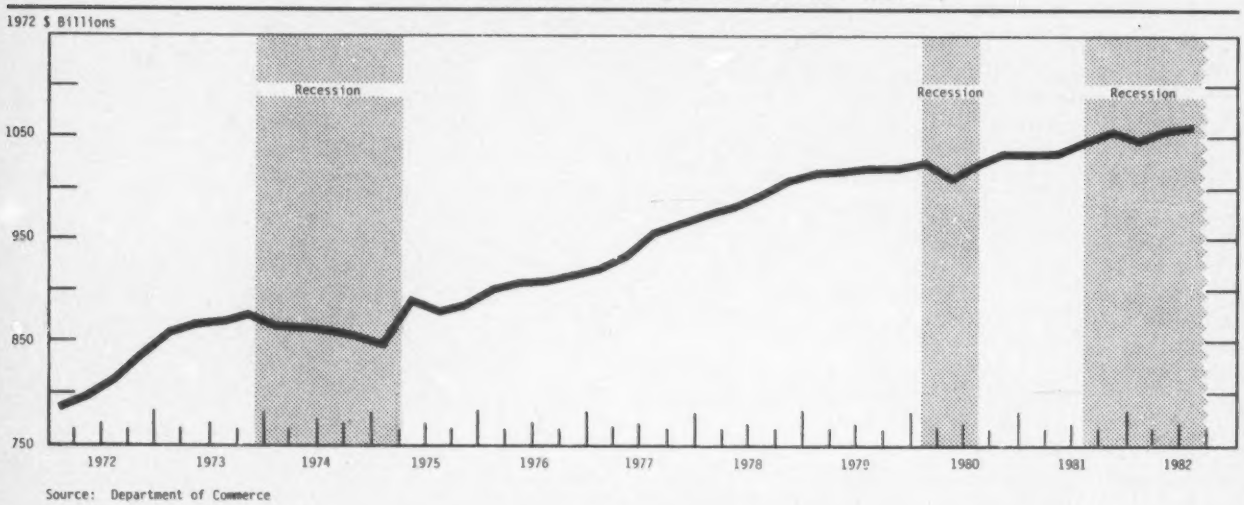
FinanceFacts

A Monthly Publication on Consumer Financial Behavior NOVEMBER 1982

Real Disposable Personal Income
(Quarterly, Seasonally Adjusted Annual Rates)



Source: Department of Commerce

Even in good years October is the part of the American year reserved for scrutinizing bad economic news, since October is the month before election day. And 1982 has been a good year for bad news, with unemployment reaching 10.4% of the work force at last count. However, fortunately, not all recent economic news has been bad. While no one contends the economy is balmy, some parts of the economic picture look considerably better than the unemployment rate in isolation. For this reason, and since November is the farthest point in the calendar from next election day, Finance Facts reserves November to look at some positives.

1) Leading Indicators. After a slight dip in August, the Commerce Department's index of leading economic indicators resumed its upward climb in September (see page 3). This index, whose changes in direction foreshadow changes in the direction of the economy as a whole, has now risen in five of the last six months and in September stood 4% above its March trough. The advance is not as robust as in previous business cycle upturns and seems to be signalling a relatively moderately-paced recovery. However, in the seven previous post-World War II upturns this index has never advanced for such a sustained period without signalling the onset of economic recovery.

2) Employment. With all the talk in October of higher unemployment and the 1981-82 recession being compared to the Great Depression of the 1930's, it is possible to lose sight of the pattern of total employment in recent years. Total employment peaked in May, 1981 at a record level of slightly more than 101 million employed. At that time employed workers represented 58.8% of the total noninstitutional population 16 years of age and over, very close to the all-time high of 59% in 1979. By October, 1982 the recession had caused a drop in total employment of 1.9% to 99.1 million with

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jobs. While this is dismal news, the decline is actually smaller in percentage terms than the 2.2% drop in the 1973 75 recession (see chart on page 3). And, the portion of the population with jobs at 56.6% is still higher than any year 1947-72 and is exceeded by more than one percentage point only in 1979-81 when employment averaged 58.6% of the population.

3) Inflation. By any measure inflationary pressures in the economy moderated substantially during 1982. The consumer price index for all urban consumers increased 5.0% between September 1981 and September 1982, in sharp contrast to growth rates reaching almost 20% for short periods in 1980 and double digit yearly growth 1979-81 (see page 4). Consumer-price inflation in 1982 is likely to be the lowest recorded in a decade, since annual growth of 3.3 percent in 1972.

4) Consumers' Real Income. The 1981-82 recession is unique among the eight post World War II recessions in that consumers' real income (disposable personal income in inflation-adjusted 1972 dollars) has not declined despite some deterioration in employment (see chart). A number of factors account for this
difference, including the rapid decline in inflation, Federal tax cuts enacted in 1981, and high interest rates through much of the year that raised consumers' interest income. Of course, to a great extent each of these reasons might be considered a special factor. To make consumers' real incomes continue to grow, increases in employment and average workweeks will be needed, together with continued moderation in inflation. Nevertheless, consumer-sector real income growth has been sustained through this recession, which is unprecedented in recent financial history.

5) Consumers' Financial Condition. As discussed in more detail in earlier issues of Finance Facts (January-April 1982), the consumer sector as a whole remains in relatively liquid financial condition. Liquid assets are substantial and installment credit growth has been very limited since 1979. Installment credit growth in third-quarter 1982 grew at only a 2% annual rate. Consumers' installment credit "debt burden," defined as installment credit repayments divided by disposable personal income, fell to 14.8% in the third quarter, the lowest ever recorded in the series which dates from 1971 (see April Finance Facts).

6) Interest Rates. In the past two months interest rates accelerated their decline which actually began in 1981. Prime loan rate at major banks is now 12.0%, down 44% from its peak of 21.5% in early 1981. Almost half of this drop has occurred since July 1982 when the prime rate still held at 16.5%. Likewise Moody's index of rates on seasoned AAA corporate bonds declined 27% to 11.58% in the week ended November 5, 1982 from 15.85% in the week ended October 2, 1981. Much of the decline has occurred in the past few months; Moody's index remained above 15% as late as the week ending last July 2. Since interest rates in large part reflect expectations of future inflation, long-term rates can be expected to continue to edge downward if inflation continues to moderate. And, as rates edge downward, pickups can be expected in interest-sensitive parts of the economy, such as housing and automobile sales.

7) Housing. It appears that recent declines in interest rates are beginning to have an impact on housing. Housing starts rose 14.4% in September to a seasonally adjusted rate of 1.15 million. Single-family home starts were at their highest level in over a year. Likewise, new home sales jumped 23.7% in September to the highest level since May 1981. Continued strength in sales will encourage developers to continue the recent trend toward higher levels of starts with resultant increases in construction employment and income.

In sum, while bad news abounds, economic news is not uniformly dismal. If recent pickups in consumer sentiment reported by the University of Michigan are soon translated into willingness to purchase, the economy might begin to show some more life, as we turn the corner into 1983.

Thomas A. Durkin

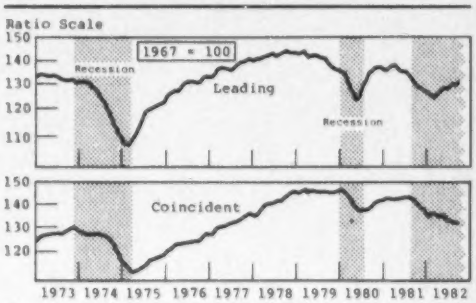
LEADING INDICATORS

The composite index of leading indicators increased 0.5% in September to a level of 130.4 (1967=100), based on preliminary data. Preliminary estimates for August showed a decline of 0.9%. Based on more complete data the index decreased 0.2% in August and increased 1.2% in July. The major contributor to the August revision was change in inventories on hand and on order. The index of leading indicators has now registered increases in five of the last six months and is at a level 4.2% above its most recent low (March 1982) of 125.1.

Five of the ten indicators available for September contributed to the increase, with stock prices making the greatest contribution. Four of the ten contributed declines, the largest contributor was average workweek. One indicator was unchanged.

The composite index of coincident indicators, which is a monthly approximation of aggregate economic activity, decreased 0.8% in September to 130.3 (1967=100), based on preliminary data. This index decreased 1.0% in August and decreased 0.5% in July.

Composite Indexes
By Months 1973-1982

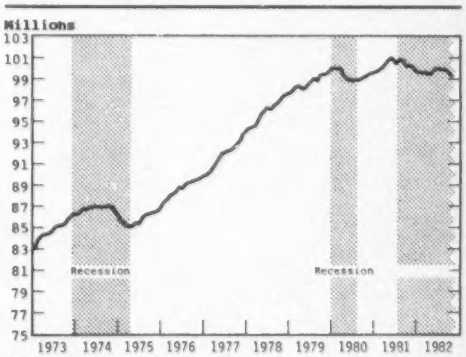


Source: Department of Commerce

CONSUMER INSTALLMENT CREDIT

In September, consumer installment credit outstanding amounted to $335.9 billion. A year ago outstandings were $328.2 billion. On a seasonally adjusted basis, there was an increase of $1.1 billion in September with just under half of the increase accounted for by auto credit. At the end of the third quarter total consumer installment credit liquidated was 14.8% of disposable personal income. In the second quarter it was 15.6%.

Total Employment
By Months (Seasonally Adjusted) 1973-1982



Source: Department of Labor

EMPLOYMENT

Unemployment rose in October and employment declined after seasonal adjustment, according to the Bureau of Labor Statistics. The unemployment rate increased from 10.1% in September to October's level of 10.4% as total employment dropped by 630,000 in October to 99.1 million.

The overall unemployment rate, at 10.4%, has increased fairly steadily over the past 15 months from a low of 7.2%. Nearly all of the October rise in joblessness occurred among adult men and women, whose rates reached 9.8% and 8.6%, respectively. The rate for teenagers was about unchanged. The average duration of unemployment rose over the month to 17.2 weeks in October.

PRICE INDEXES

The Consumer Price Index for All Urban Consumers (CPI-U) rose 0.2% in September, before and after seasonal adjustments, to 293.3 (1967=100). The September increase follows an increase of 0.3% in August and is consistent with the generally moderate rates of increase since October 1981. The housing component declined 0.2% in September, primarily reflecting lower mortgage interest rates and housing prices while food and beverage prices posted their first rise (0.5%) since June.

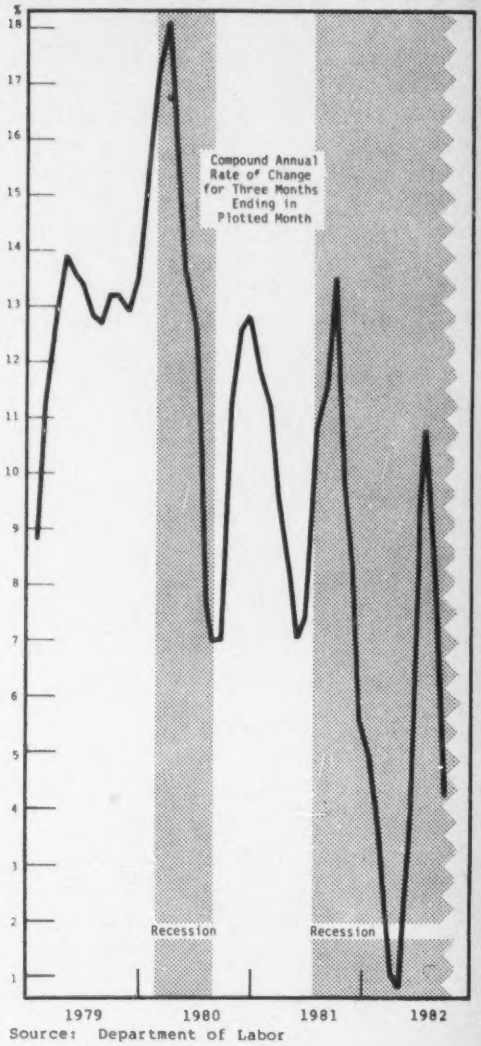
For the first three quarters of 1982, the CPI-U rose at a seasonally adjusted annual rate of 4.8%. The third quarter rate was 4.2%, compared with a 9.3% rate of increase in the second quarter. The slowdown from the second to the third quarter is attributable to the housing and food and beverages components. Over the past 12 months, all index groups, excepting medical care, rose more moderately than in the preceding 12 months.

The Producer Price Index for Finished Goods edged down 0.1% from August to September after seasonal adjustment. The index had increased 0.6% in both July and August. About two-thirds of the September decline was caused by across-the-board inventory liquidation allowances for passenger cars and trucks associated with the model year. The index for finished goods other than food and energy edged down 0.1% following a 0.6% rise in August. Before seasonal adjustment, the Producer Price Index for Finished Goods decreased 0.4% to 281.4 (1967=100). For the 12 months ending in September 1982 this index has risen 3.6%.

Gregory D. Luetscher

Change in Consumer Price Index

(All Urban Consumers, 1979-1982)



Source: Department of Labor

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